

Message Text

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TO SECSTATE WASHDC 6321

INFO USMISSION EC BRUSSELS

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: 1974/75 GOVERNMENT REVENUE ESTIMATES DRASTIC-
ALLY REDUCED -- PUBLIC SECTOR BORROWING TO REACH DM 55
BILLION IN 1975

REF.: BONN 14808

1. SUMMARY. THE FRG HAS JUST REVISED ITS REVENUE
ESTIMATES FOR 1974 AND 1975. GIVEN SLOWER THAN PRE-
VIOUSLY-ANTICIPATED GROWTH OF GNP, REVENUES OF THE
FEDERAL GOVERNMENT, THE STATES AND THE MUNICIPALITIES,
TOGETHER, ARE NOW EXPECTED TO FALL SHORT OF EARLIER
ESTIMATES BY DM 7 BILLION IN 1974 AND DM 14.6 BILLION
IN 1975. WITH TAX INCREASES OR CUTS IN SPENDING PLANS
CHARACTERIZED BY THE FINANCE MINISTER AS INCOMPATIBLE
WITH THE PERSISTENT SLUMP, TOTAL PUBLIC SECTOR
BORROWING (INCLUDING THE BUNDESBahn AND THE BUNDESPOST)
IS NOW PLACED AT DM 33.5 BILLION OR ABOUT 3.3 PERCENT
OF GNP FOR 1974, AND DM 55 BILLION OR 5 PERCENT OF

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ESTIMATED GNP IN 1975. END SUMMARY.

2. ACCORDING TO REVISED REVENUE PROJECTIONS JUST RE-LEASED, TOTAL PUBLIC SECTOR REVENUES IN THE FRG ARE NOW EXPECTED TO FALL SHORT OF EARLIER (JUNE 1974) ESTIMATES BY SOME DM 7 BILLION IN 1974 (FEDERAL GOVERNMENT, DM 3.6 BILLION; STATES, DM 2.7 BILLION; MUNICIPALITIES, DM 0.7 BILLION) AND BY DM 14.6 BILLION IN 1975 (FEDERAL GOVERNMENT, DM 6.8 BILLION; STATES, DM 6.4 BILLION; MUNICIPALITIES, DM 1.4 BILLION). THESE DOWNWARD REVISIONS REFLECT SLOWER THAN PREVIOUSLY-ANTICIPATED GROWTH OF GNP. WHEREAS IN EARLIER REVENUE PROJECTIONS THE GOVERNMENT HAD ASSUMED THAT GNP IN CURRENT PRICES WOULD RISE BY 9.4 PERCENT IN 1974 AND 11 PERCENT IN 1975, THESE GROWTH RATES (NOMINAL, NOT REAL) ARE NOW PLACED AT 7.3 PERCENT AND 9.0 PERCENT, RESPECTIVELY.

3. AGAINST THIS BACKGROUND, NET BORROWING REQUIREMENTS OF THE FEDERAL GOVERNMENT, THE STATES AND THE MUNICIPALITIES TOGETHER IN 1974 ARE NOW OFFICIALLY ESTIMATED AT DM 27 BILLION. AN ADDITIONAL DM 6.5 BILLION ARE EXPECTED TO BE NEEDED BY THE BUNDESBAHN AND BUNDESPOST. THE RESULTING TOTAL PUBLIC SECTOR DEFICIT OF DM 33.5 BILLION WOULD AMOUNT TO ABOUT 3.3 PERCENT OF THE ANTICIPATED NOMINAL 1974 GNP. FOR 1975, BORROWING REQUIREMENTS ARE PLACED AT DM 47.5 BILLION FOR GOVERNMENT AUTHORITIES AND DM 7.5 BILLION FOR THE BUNDESPOST AND THE BUNDESBAHN, ADDING UP TO DM 55 BILLION, OR ABOUT 5 PERCENT OF GNP.

4. NET BORROWING REQUIREMENTS OF FEDERAL GOVERNMENT ALONE ARE NOW PLACED AT DM 10 BILLION FOR 1974 (1 PERCENT OF GNP) AND SOME DM 23 BILLION (2.1 PERCENT OF GNP) FOR 1975. THE LATTER COMPARES WITH DM 15.6 BILLION CONTAINED IN THE 1975 DRAFT BUDGET SUBMITTED TO LEGIS-

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LATORS ON SEPTEMBER 18 (SEE REFTEL).

5. IN PRESENTING THE NEW REVENUE AND BORROWING ESTIMATES TO THE PRESS, FINANCE MINISTER APEL EXPLAINED THAT -- GIVEN THE (WEAK) UNDERLYING BUSINESS SITUATION -- TAX INCREASES OR CUTS IN PUBLIC SPENDING PLANS ARE UNDESIRABLE. HOWEVER, HE ALSO PROMISED A TOUGH STAND AGAINST FURTHER INCREASES OF EXPENDITURES, ADVOCATING IN PARTICULAR SOLID RESISTANCE TO EXCESSIVE CLAIMS DURING THE IMPENDING WAGE NEGOTIATIONS FOR PUBLIC SERVANTS -- EVEN AT THE EXPENSE OF A STRIKE, IF NECESSARY. THE MINISTER ALSO CAME OUT AGAINST FINANCING OF THE BUDGETARY GAPS THROUGH RECOURSE TO THE FEDERAL AND STATE COUNTERCYCLICAL RESERVES OF SOME DM 10 BILLION HELD WITH THE BUNDESBANK, ADMITTING THAT SOME STATES ARE EXERTING PRESSURE FOR SUCH ACTION. APEL REPORTEDLY IMPLIED THAT THESE FUNDS MAY BE NEEDED FOR PUMP PRIMING AND, THEREFORE, SHOULD NOT BE USED FOR REGULARLY-BUDGETED EXPENDITURES.

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6. ACCORDING TO APEL, PUBLIC SECTOR BORROWING ON THE CAPITAL MARKET OF THE MAGNITUDE REQUIRED TO FINANCE THE HUGE DEFICITS IS MANAGEABLE, GIVEN PERSISTENTLY HIGH SAVINGS AND LOW CREDIT NEEDS OF THE PRIVATE SECTOR, PARTICULARLY HOUSING CONSTRUCTION. HE IMPLIED THAT AN INCREASE OF INTEREST RATES IN RESPONSE TO RISING GOVERNMENT FINANCING REQUIREMENTS SHOULD BE FORESTALLED BY CAUTIOUS LOOSENING OF THE MONETARY REINS.

7. BEGIN CLASSIFIED. COMMENT: AS POINTED OUT IN BONN A-352, THE DEFICIT ESTIMATE CONTAINED IN THE

1975 FEDERAL DRAFT BUDGET IS UNDERSTATED BY AT
LEAST DM 2.5 BILLION. MOREOVER, THE FUNDS
EARMARKED FOR PAY BOOSTS ARE VIRTUALLY CERTAIN TO
FALL SHORT OF WHAT THE UNIONS ARE APT TO SETTLE FOR.
THEREFORE, EVEN THE NEW GOVERNMENT DEFICIT ESTIMATE
FOR 1975 MAY WELL PROVE TO BE TOO LOW. END
CLASSIFIED.
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